

Orange County Fire Authority

Mid-Year Financial Review & Proposed Fiscal Health Action Plan



January 22, 2009

Purposes of Review

- Discuss the economic and financial environment
- Provide a mid-year financial update on the FY 2008/09 budget
- Review the impact of the update on the Five-Year Financial Outlook
- Propose a Fiscal Health Action Plan, including multiple alternative options, in response to the negative changes in financial outlook

Economic & Financial Environment

Potential threats and challenges include:

- Investment rates are declining
- Housing, unemployment, and credit markets remain problematic – as a result, property tax revenues are declining
- Retirement costs are increasing
- Market access is uncertain for the TRAN
- 2006/07 TRAN is being reviewed by the IRS
- State's fiscal crisis is getting worse

Mid-Year Financial Update

Property Tax Revenue - \$2.85 million decrease:

- 5.1% growth was budgeted for secured taxes, however, County tax ledger reflects actual growth at 3.35%
- Caused by reassessment of 127,000 properties by Assessor's office after completion of property tax study
- As a result of shortfall, we've reduced the assumed growth rate for future years by 50%, pending completion of the updated property tax study

Mid-Year Financial Update

Property Tax Revenue Projections:

	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
Adopted Budget	5.10%	3.38%	3.82%	4.04%	4.62%
50% Reduced RSG	3.35%	1.69%	1.91%	2.02%	2.31%
Negative & Zero Growth	3.35%	-0.50%	0.00%	2.02%	2.31%
Prop 1-A Trigger	3.35%	-6.45%	10.77%	2.02%	10.16%

Mid-Year Financial Update

Retirement Costs - \$5.7 million increase

(effective FY 2009/10):

- Primarily driven by actuarial adjustment to mortality tables, following a triennial experience study
- Additional cost increases are anticipated beginning in 2010/11 due to the 2008 investment losses
- The accelerated pension liability amortization period that was initiated in 2008/09 will need to be re-evaluated for affordability moving forward

Mid-Year Financial Update

General Fund Beginning Balance - \$7.8 million increase:

- Based on the FY 2007/08 year-end audit
- Driven by increases in property taxes and intergovernmental reimbursements over budget
- Also includes \$1 million in expenditure savings from the increase in emergency appropriations requested in June 2008

Five-Year Financial Outlook

- OCFA uses a five-year forecast model to evaluate affordability of new proposals or changed economic conditions
- The forecast is built using OCFA's adopted budget, five-year Capital Improvement Program, and Board-Adopted reserve policies

Five-Year Financial Outlook

Reserve Requirements per Board-Adopted Policies:

- Contingency Reserve - **\$23.0 million**
 - 10% of operating expenditures

- Debt Service Reserve - **\$7.9 million**
 - Equal to outstanding payments on RFOTC Revenue Bonds

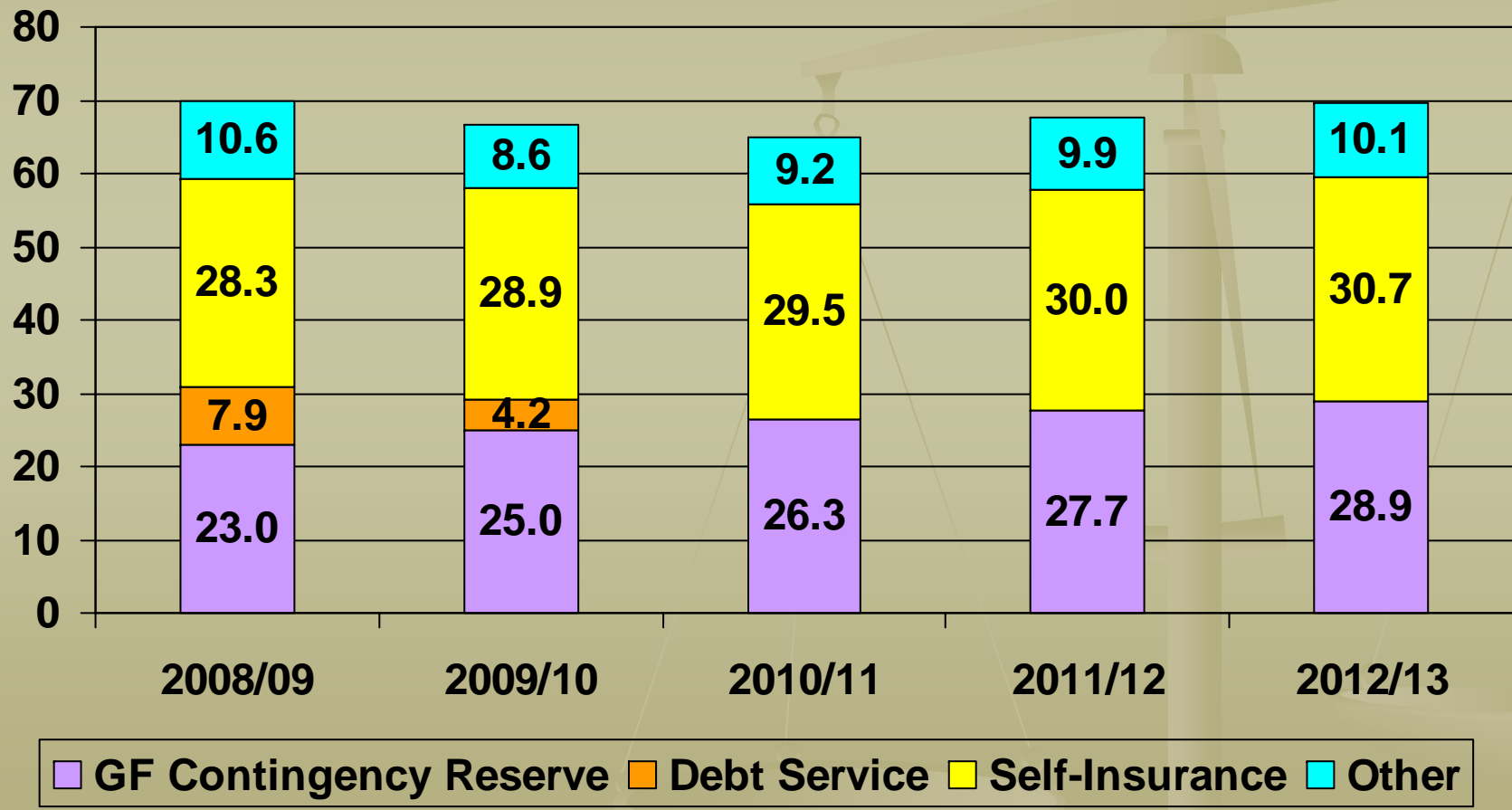
- W/C Self-Insurance Reserve - **\$28.3 million**
 - Equal to outstanding projected losses at 80% confidence level

Five-Year Financial Outlook

- In addition to the above requirements, an additional **\$10.6 million** has also been designated by the Board for various specific purposes
- The combination of policy requirements and fund designations result in a total reserve requirement for the current FY of **\$70 million**
- This \$70 million reserve is OCFA's current minimum fund balance requirement, as dictated by Board approved policies.

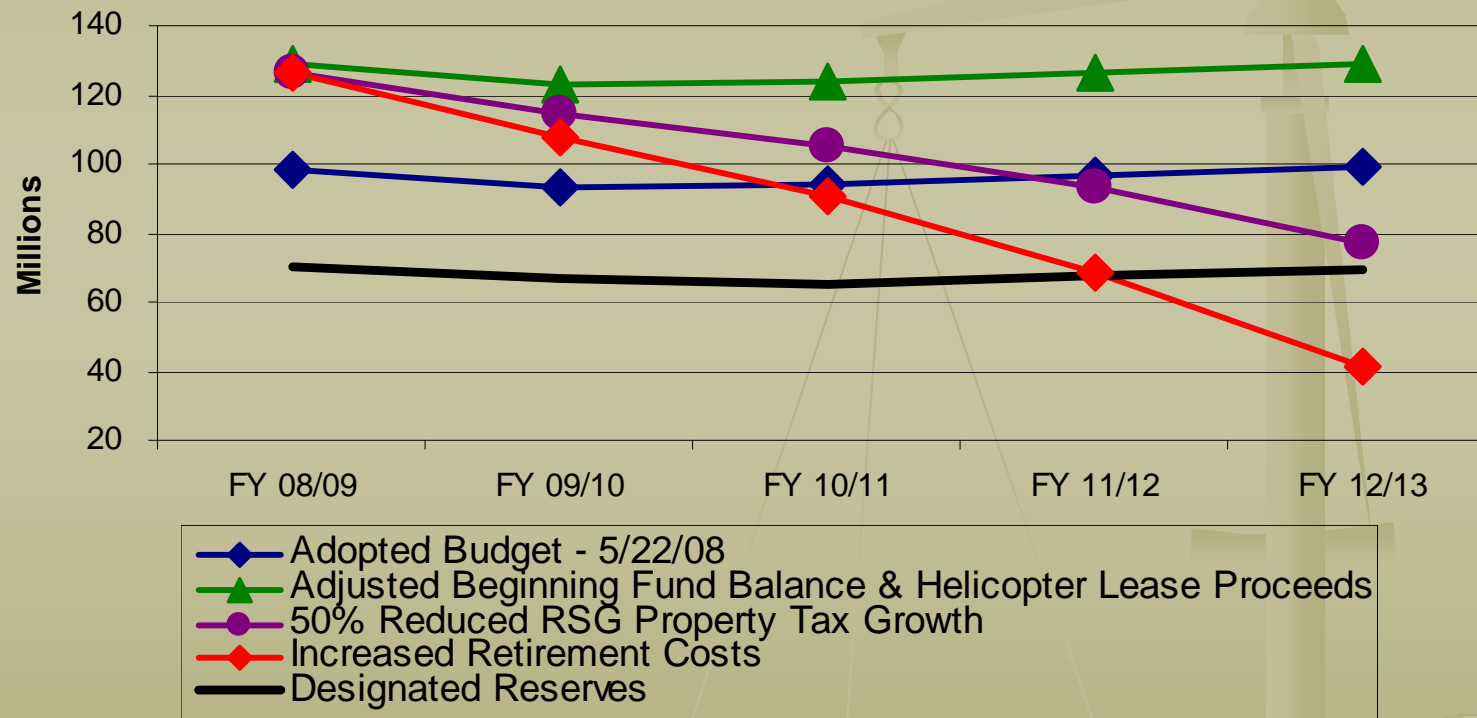
Five-Year Financial Outlook

Designated Reserves



Five-Year Financial Outlook

Assessment of the Problem



Five-Year Financial Outlook

Proposed Recovery Scenario's

- Scenario #1 – Deferral of Planned Expansion
- Scenario #2 – Deferred Expansion plus Continued Pursuit of Expedited UAAL Amortization
- Scenario #3 – Altered Phase-in of Santiago After Action Report (AAR) Expansion Items
- Scenarios #4 and #5 – Stress-testing of property tax growth formulas, building upon Scenario #3

Five-Year Financial Outlook

Scenario #1 – Deferral of Planned Expansion

5-Yr General Fund Savings

- Defer addition of a limited-term pilot n/a
- Defer conversion of hand-crew from seasonal to FT \$3.4M
- Slow upstaffing on wildland engines from 3 post-positions per year to 1 (adds 3 people per year rather than 9) \$13.5M
- Defer addition of new stations (IBC-Irvine, Stn 56-Ortega) \$12.4M
- Defer addition of Truck 20 in Irvine \$10.3M
- Pursue biennial lease-purchase financing n/a
- Release \$6.7 million designation for future needs n/a
- Revert from 20-year amortization of UAAL to 28-year period \$17.3M

\$56.9M

Five-Year Financial Outlook

Scenario #2 – Expedited UAAL Amortization

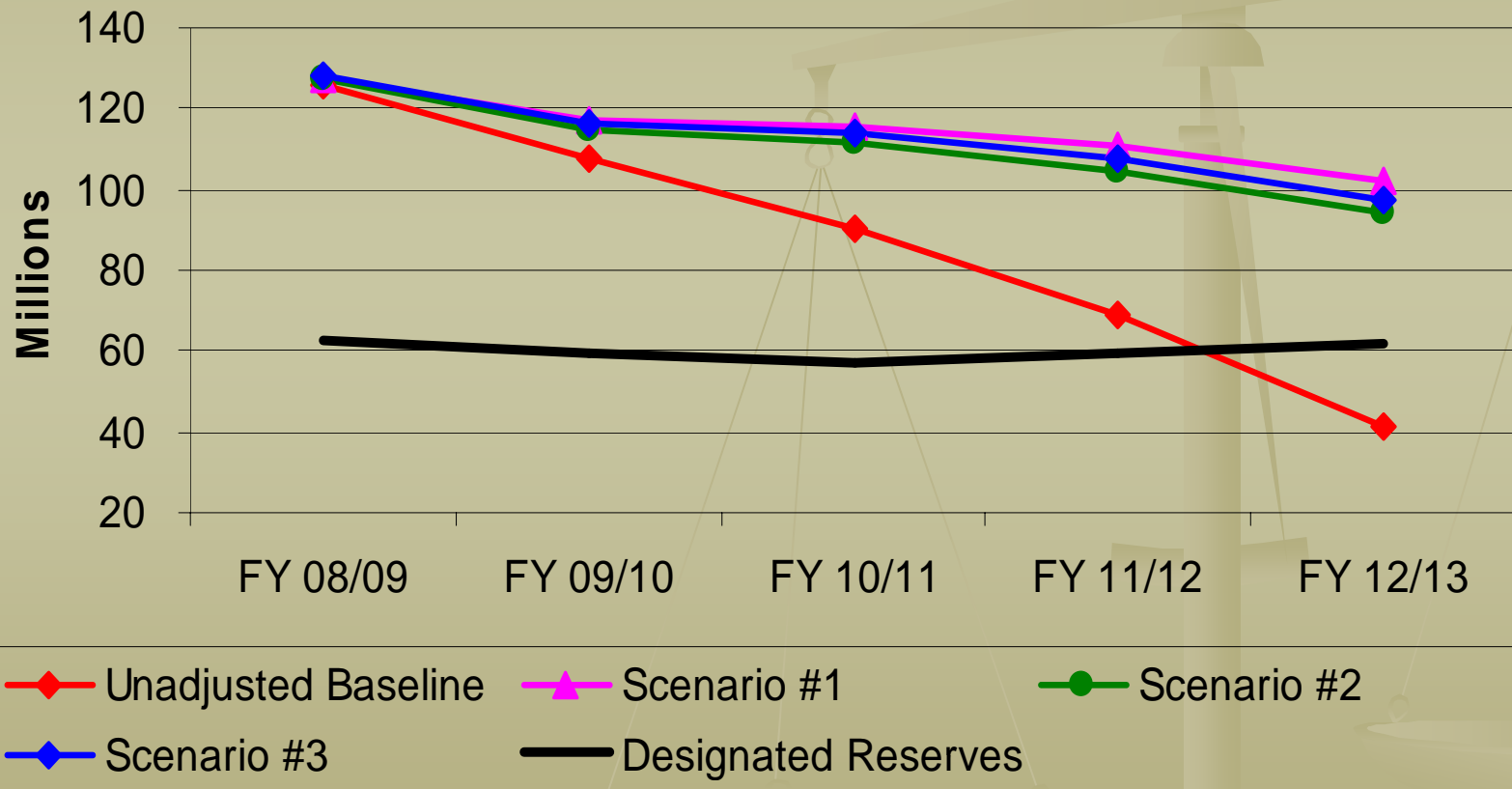
- Adds back \$2 million per year to expedite amortization of the unfunded pension liability

Scenario #3 – Altered Phase-in of AAR Expansion

- Building on scenario #1, adds limited-term pilot in April 2009, pending consideration of the Air Operations Needs Assessment
- Adds back the handcrew conversion in June 2009
- Provides AAR upstaffing using OT for 2 months in 2009, and delays permanent addition of positions until Jan 2010

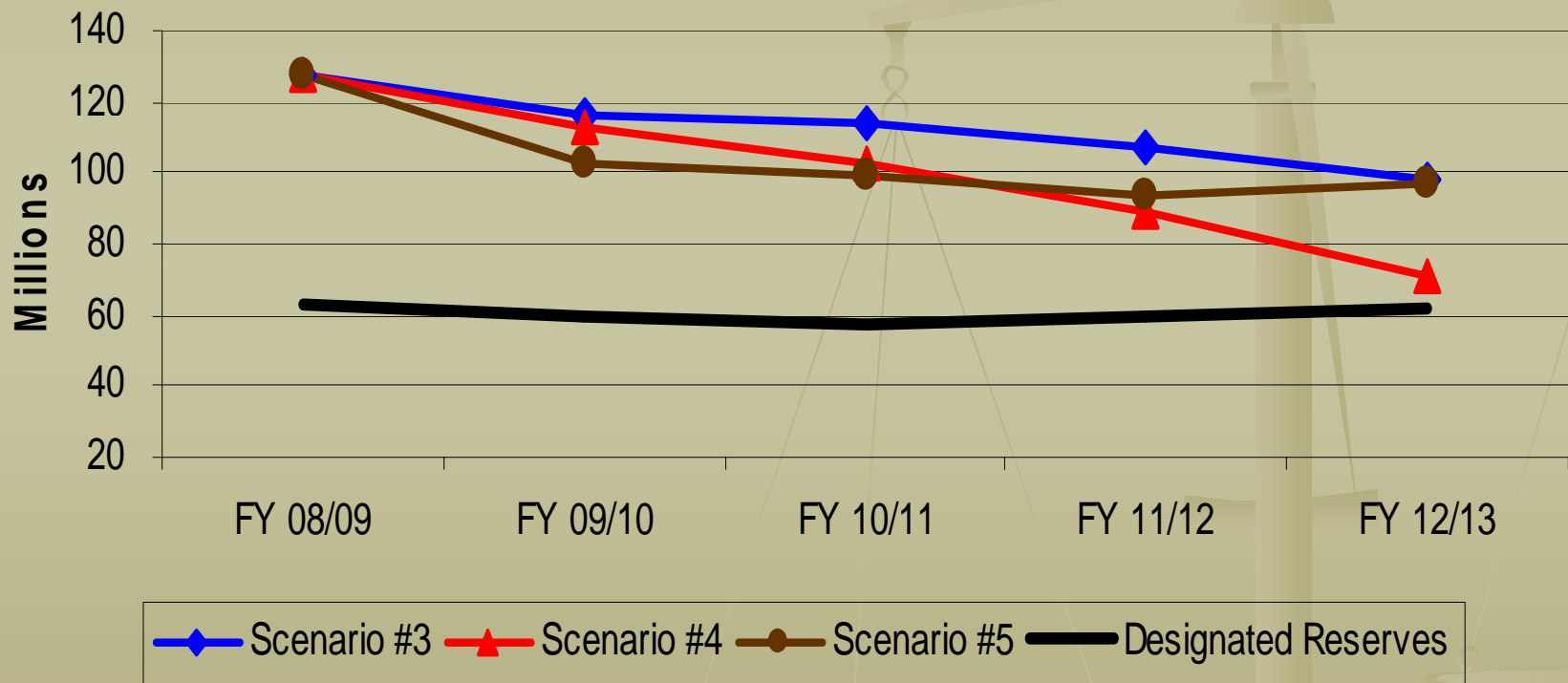
Five-Year Financial Outlook

Potential Budget Reduction Scenarios



Five-Year Financial Outlook

Stress-Testing of Property Tax Growth



Five-Year Financial Outlook

Prop 1A Borrowing – What Would OCFA Do?

- A maximum Prop 1A borrowing of 8% would equate to a revenue loss of \$14 million in FY 2009/10, causing:
 - a one-time General Fund deficit of \$7 million, and
 - reduced funding for future capital needs

Five-Year Financial Outlook

Prop 1A Borrowing – What Would OCFA Do?

- The one-time revenue loss could be mitigated by a combination of ongoing and one-time expenditure reductions:
 - Previously frozen positions would be reviewed for permanent deletion and/or consolidation with other positions
 - New post-positions planned for future implementation would be further delayed, or filled using OT
 - Across-the-board reductions would be imposed on services and supplies
 - Substantial reductions and deferrals would be made to plans for capital improvements

Five-Year Financial Outlook

Prop 1A Borrowing – What Would OCFA Do?

- Current projections show that OCFA could endure a Prop 1A borrowing by taking the actions previously discussed *without* having to tap into the contingency reserve
- However, should the contingency reserve become needed, this potential Prop 1A exposure is the type of economic uncertainty that the reserve was designed for

Five-Year Financial Outlook

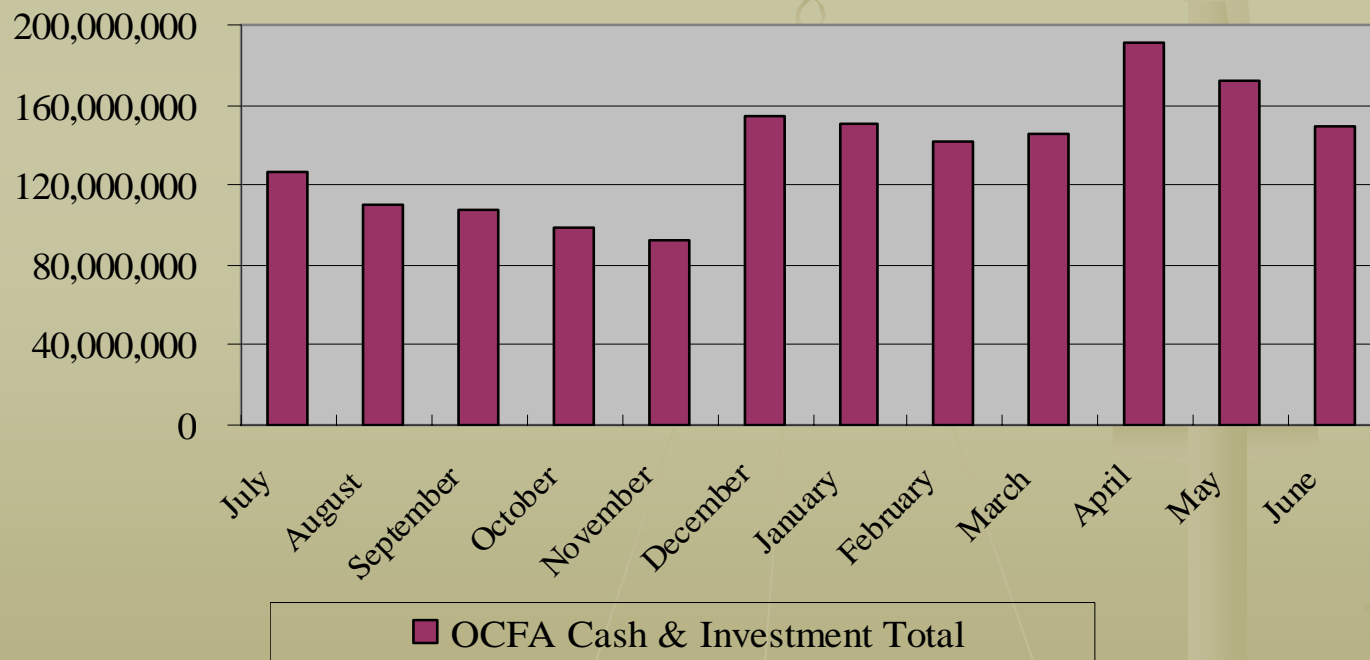
Prop 1A Borrowing – Perspectives

- Should the State decide to pursue a Prop 1A borrowing from local agencies, OCFA and other California Fire Agencies would work hard collectively to exempt Fire from the borrowing
- Furthermore, if the State passed an urgency statute to trigger Prop 1A, they would also be required to pass a second statute simultaneously outlining their plan for repayment within 3 years
- The State is currently facing a budget deficit in excess of \$40 billion, while a Prop 1A borrowing would only resolve \$2 billion in the year of borrowing, and would compound the problem in outer years

Five-Year Financial Outlook

Prop 1A Borrowing – Perspectives

**FY 2007/08 OCFA Cash & Investments Total
Month End Balances**



Proposed Fiscal Health Action Plan

- Pursue scenario #3, which provides for slower phase-in of expansion items from the Santiago After Action Report
- Pursue additional, smaller-scale cost containment measures through the employee-driven effort underway
- Continue to identify additional reduction options during development of the 2009-2011 biennial budget
- Attempt to pursue some level of expedited amortization of the pension liability, depending upon feasibility as the 2009-2011 budget is developed
- Pause and return to B&FC if conditions deteriorate substantially greater than presented today



Questions?